

Board of County Commissioners

Agenda Request Item #22, Additional Information

Date of Meeting: April 26, 2005

Date of Distribution: April 26, 2005

To: Honorable Chairman and Members of the Board

From: Parwez Alam, County Administrator
Kim Dressel, Management Services Director

Subject: Additional Information – Agenda Item #22 – Approval to Jointly Purchase the Frenchtown Renaissance Center with the City of Tallahassee

Staff has continued to gather additional salient facts subsequent to the publication of Agenda Item #22, which are summarized and transmitted to the Board via this additional information item. Other than the general building information, this additional information is presented in the order it was received from various sources. For continuity purposes, some of the information being presented was previously provided to the Board (such as the appraisal valuations from Integra).

Table 1, Summary of Salient Facts		
Building Gross Square Feet (GSF) (publications listed 70,000; appraisals listed 71,000)	71,000 +/-	
Number of Floors	3	
GSF/Floor	23,667 +/-	
SF Rentable Area	62,000	
SF Common Area	9,000	
# Parking Spaces (based on a site count – appraisal listed 308, and previous publications listed 300)	330	
Price Offered by the Renaissance Partners LLC (includes approximately \$396,000 in Tenant Improvements to be performed at Renaissance Partners' expense)	\$13,000,000	
Total Cost/SF = \$13,000,000 / 71,000 =	*\$183	
(*Includes \$18/SF Tenant Improvements (TI), Valued @ \$18 x 62,000 or \$1,116,000)		
Cost/SF Excluding \$18/SF TI = (\$13,000,000 – (62,000 x \$18)) / 71,000 =	\$167	
Appraised Value, Integra Realty Resources		
	Scenario A	Scenario B
Cost Approach	\$13,500,000	\$13,500,000
Sales Comparison Approach	\$13,500,000	\$15,000,000
Income Capitalization Approach	\$13,500,000	\$14,800,000
Final Conclusion of Value	\$13,500,000	\$15,000,000
Note: Scenario A assumes the City leases 65% of the facility and the remainder is leased to local tenants at market rates. Scenario B assumes the City leases 100% of the property.		
Appraised Value, Cureton-Johnson & Associates		
Income Capitalization Approach Final Value of Leased Fee Interest (Improvements) &	\$12,600,000	

Leasehold Interest (Land)	
Adjustment – Build Out Expense – Appraisal report deducted \$396,000 in build-out expenses from the property's value (22,000 SF x \$18/SF). However, Renaissance Partners' price includes the performance of these remaining improvements at their cost. This adjustment removes that deduction from the appraised value calculation	\$396,000
Adjusted Value Calculation	\$12,996,000
Cost to Build, Diskin Property Research	
Opinion of the Replacement Cost of the Building and Parking Structure <i>Does not consider or analyze the value of the underlying land or any site development costs associated with this project</i>	\$11,000,000
Adjustment – Estimated Land Value (per Cureton-Johnson & Associated, Table 4)	\$1,075,000
Adjusted Replacement Cost (including the estimated land value and excluding site development costs, such as sidewalks, landscaping, stormwater capacity)	\$12,075,000

Appraisals – Opinions and conclusions drawn from two appraisal reports are summarized in the following section. The first appraisal report was prepared by Integra Realty Resources for GE (the effective date of the appraisal was April 1, 2005). The second was prepared by Cureton-Johnson & Associates for the City of Tallahassee (Date of Value April 18, 2005; Date of Report April 25, 2005).

Appraisal Report – Integra Realty Resources: The owners of the Renaissance Center were reportedly in the process of creating commercial condominium units and selling that portion under lease with the City to GE Commercial Finance Business Property Corporation (GE) and retaining the remaining portion for a potential sale to the County. On February 24, 2005, GE authorized Integra Realty Resources (Integra), in Tampa, to prepare a complete appraisal. Integra is perhaps the largest property valuation and counseling firm in the United States, with 51 offices in 30 states. Integra's appraisal report was prepared by Bradford L. Johnson, MAI. Integra utilized three approaches in the valuation of the property, and made the following notations:

- **Cost Approach** - The cost approach is most reliable for newer properties that have no significant level of accrued depreciation. The proposed purchasers of investment properties, such as the subject property, do not typically rely upon the cost approach.
- **Sales Comparison Approach** – The sales comparison approach is most reliable in an active market when a number of similar properties have recently sold. In this case, there were no truly comparable sales in the Tallahassee market, and Integra used sales located throughout Florida. Because of differences in the various elements of comparison, significant adjustments were required for many of the sales. This detracted from the reliability of this approach and it was used primarily as support for the income capitalization approach.
- **Income Capitalization Approach** – The income capitalization approach is often given greatest weight when evaluating investment properties. The value derived in the income capitalization approach is supported by a relatively large quantity of market data regarding rental rates, expenses and capitalization rates, and is considered to be consistent with market

indications. An investor is the most likely purchaser of the appraised property, and a typical investor would place the greatest reliance on the income capitalization approach. For these reasons, the income capitalization approach is given the greatest weight in this analysis.

The following summarizes Integra's values and considerations:

- Cost Approach – The value indicated by the Cost Approach was \$13,500,000 (including the replacement cost of \$13,051,459 and a \$360,000 leasehold interest in the land). This estimate was based on Marshall Swift Valuation Service (classifying the Building as Construction Class A, Type Good and Quality Good), and did not consider site improvements.
 - Leasehold Interest Value (LV) – The leasehold interest is the value attributed to the property when the leased fee (LF) value is less than market value (MV). Leasehold interest was calculated as follows: $(\$910,000 \text{ MV} - \$549,801 \text{ LF} = \$360,199 \text{ LV})$ (rounded to \$360,000).
- Sales Comparison Approach – Integra surveyed sales activity for office properties in the Tallahassee area. However, the sales they located were of older office buildings purchased several years ago at a lower price per square foot that were not considered comparable. Thus, they expanded their comparable sales search to the entire state of Florida, and selected 14 confirmed sales as the best indicators of value for the property. The comparables ranged in size from 20,000 SF to 132,193 SF with ranges of \$193.23/SF to \$248.82/SF with an average of \$223.36/SF. It was Integra's opinion that these sales could generally be adjusted upward for market conditions and slightly for age and condition; though most would be offset by physical and economic characteristics. It was Integra's intent to present sufficient market data as a "cross check" in support of their cost and income approaches to value, which indicated a Scenario A unit value of \$217.75/SF and a Scenario B value of \$242.00/SF.
 - Scenario A: 62,000 SF of rentable area @ \$217.75/SF for a rounded total of \$13,500,000.
 - Scenario B: 62,000 SF @ \$242.00/SF for a rounded total of \$15,000,000.
- Income Capitalization Approach – The income capitalization approach consists of methods and techniques used to analyze a property's capacity to generate economic benefits and convert those benefits into an indication of present value. Table 2 summarizes the value indication utilizing this approach.
 - Scenario A: Under this scenario, Integra assumed the building is a multi-tenant office building leased to local tenants. The potential gross rent of the subject property for the first forecast year was estimated by multiplying the contract rental rates by the respective leased areas and the market rental rate by the 22,000 SF of local tenant space (40,000 SF @ 19.50/SF/YR and 22,000 SF @ \$23.00/SF/YR).

Potential parking income was added.

- Scenario B: Under this scenario, Integra assumed the building is leased for 20 years to a single credit tenant. The potential gross rent of the subject for the first forecast year was estimated by multiplying the contract rental rates by the respective leased areas. The resulting potential gross rent is \$1,209,200 (62,000 SF @ \$19.50/SF). Potential parking income was added.

Table 2 -- Integra's Income Capitalization Approach - Summary		
	Scenario A	Scenario B
Effective Gross Income	\$1,555,203	1,486,200
Less Expenses	-453,066	-450,996
Net Operating Income	1,102,137	1,035,204
Capitalization Rate	8.25%	7%
Stabilized Value Indication	\$13,359,236	\$14,788,629
Rounded To	\$13,360,000	\$14,800,000
Discounted Cash Flow Analysis	\$13,520,000	
Value Indication by Income Capitalization Approach	\$13,500,000	\$14,800,000

- Cureton – Johnson & Associates – At the request of the City of Tallahassee, Cureton-Johnson & Associates prepared a Limited Summary Appraisal of the Renaissance Center. The report was of limited scope, with the elimination of the Cost and Sales Comparison Approaches, which was agreed to by the City. The report was prepared by W. R. (Chip) Johnson, MAI. Cureton-Johnson & Associates is located in Tallahassee at 1358 Thomaswood Drive. Their conclusion of value is summarized in Table 3.

Table 3 – Cureton-Johnson & Associates – Summary of Conclusion of Value	
Effective Gross Income (62,000 SF @ \$19.50/SF) + (308 Spaces @ \$75/month x 308 Spaces)	\$1,486,200
Less Vacancies	-\$52,620
Less Expenses	-\$429,866
Net Operating Income	\$1,003,714
Final Direct Capitalization Rate	7.55%
Stabilized Value Indication	\$13,294,225
Rounded To	\$13,300,000
Discounted Cash Flow Analysis	\$12,900,000
Value Indication by Income Capitalization Approach – Final Value as Stabilized/Complete (As Is)	\$13,200,000
Less: Build-Out Expense (22,000 SF x \$18/SF)	-\$396,000
Leased Up Adjustment (to account for it only being 65% leased at	-\$189,432

this time; deducted from stabilized value to account for the lack of stabilized occupancy)	
Final Value of Leased Fee Interest (Improvements) and Leasehold Interest (Land)	\$12,614,729 (\$12,600,000 Rounded)

- Final Value of Leasehold Interest = \$1,075,000 (Fee Simple Land Value) - \$545,492 (Leased Fee Value) = \$530,000 (Leasehold Interest, Rounded)
- Total Value of Leased Fee Estate (Improvements) & Leasehold Estate (Land) = \$12,600,000

Table 4 – Cureton-Johnson & Associates – Fee Simple Land Value Information			
Per Unit Measure	Calculation	Value	Weighted Value
Price Per SF	\$6/SF x 130,680 SF	\$784,080	\$784,080 x .50 = \$392,040
Price Per Buildable SF	\$22/SF x 62,000 Buildable SF	\$1,364,000	\$1,364,000 x .50 = 682,000
Final Value of Fee Simple (Raw) Land			\$1,075,000 (Rounded)

- Diskin Property Research – At the request of Leon County, Diskin Property Research prepared an opinion of the replacement cost of the subject property as of April 26, 2005, in an appraisal consulting report, as defined by the Uniform Standards of Professional Appraisal Practice. The estimate was prepared by Barry Diskin, PhD, MAI. Diskin Property Research is located in Tallahassee at 2938 Wellington Circle.
 - *Diskin Property Research did not consider or analyze the value of the underlying land or any site development costs associated with this project.*
 - Dr. Diskin cautioned staff that the cost to build a property does not equate to the value of that property. Discussions staff has had with Dr. Diskin were consistent with notations made in Integra's report: the income approach is often given the greatest weight when evaluating investment property, and purchasers of investment properties do not typically rely on the cost approach.

Table 5 – Diskin Property Research – Opinion of the Replacement Cost of the Renaissance Center	
Cost Estimate for the 71,000 SF office building, based on calculations from Marshall & Swift Commercial Cost Estimator (\$102.68/SF x 71,000 SF) = \$7,290,288	\$7,290,288
Cost Estimate for the Parking Structure (both grade-level and elevated, according to Coloney Bell Engineering)	\$1,875,000
Subtotal	\$9,165,288

Agenda Request: Additional Information, Agenda Item #22 - Approval to Jointly Purchase the Frenchtown Renaissance Center with the City of Tallahassee

April 26, 2005

Page 6

Entrepreneurial Incentive (the compensation an entrepreneur anticipates receiving for his or her contribution and for the risk associated with the project) ($\$9,165,288 \times .20 = \$1,833,058$)	\$1,833,058
Diskin Property Research's Opinion of Total Replacement Cost (Rounded) <i>Does not consider or analyze the value of the underlying land or any site development costs associated with this project</i>	\$11,000,000
Estimated Land Value (Cureton-Johnson & Associates estimated the value of the raw land to be \$1,075,000 (Table 4))	\$1,075,000
Adjusted Replacement Cost (including the estimated land value, and excluding site development costs)	\$12,075,000

During the April 12, 2005 meeting, the Board rejected all proposals it had received in response to the Request for Property Proposals. Comparable facts, presented in those proposals and the Renaissance Center, are summarized in Table 6. No analysis has been conducted as to the quality of the properties as they exist today (the "As Is" price), what is provided in each property's Turnkey price, and whether the Turnkey price fully meet the County's needs without additional expense.

Table 6, Comparison of Offered Properties

	Arbor Centre (Existing Property)	EMO Properties (New Building to be Constructed)	International Property Holdings (Prior Fringe Benefit's Bld.)	Renaissance Center (Existing Property)
Building Gross Square Feet (GSF) (+/-)	50,938	33,155	*30,380	71,000
Number of Office Floors	3	3 (4 floors total; 3 floors office & 1 floor underneath for parking)	2	3
GSF/Floor	16,979	11,052	15,190	23,667
# Parking Spaces	205	96	112	330
Year Built	1999	Build to Suit	1972	2005
"As Is" Price (for Renaissance Center, TI allowance of \$18/Rentable SF deleted (\$13,000,000 - \$1,116,000))	\$6,835,000	\$5,687,152 to \$5,758,552	\$1,500,000	\$11,884,000
Turnkey Price	\$6,955,000	\$6,947,423 to \$7,656,622	\$1,700,000	\$13,000,000
"As Is" Price/GSF	\$134	\$172 to \$174	\$49	\$167
Turnkey Price/GSF	\$137	\$210 to \$231	\$56	\$183
*Note: The prior Fringe Benefit's building is an existing building that is too small to co-locate City/County Growth and Planning functions.				